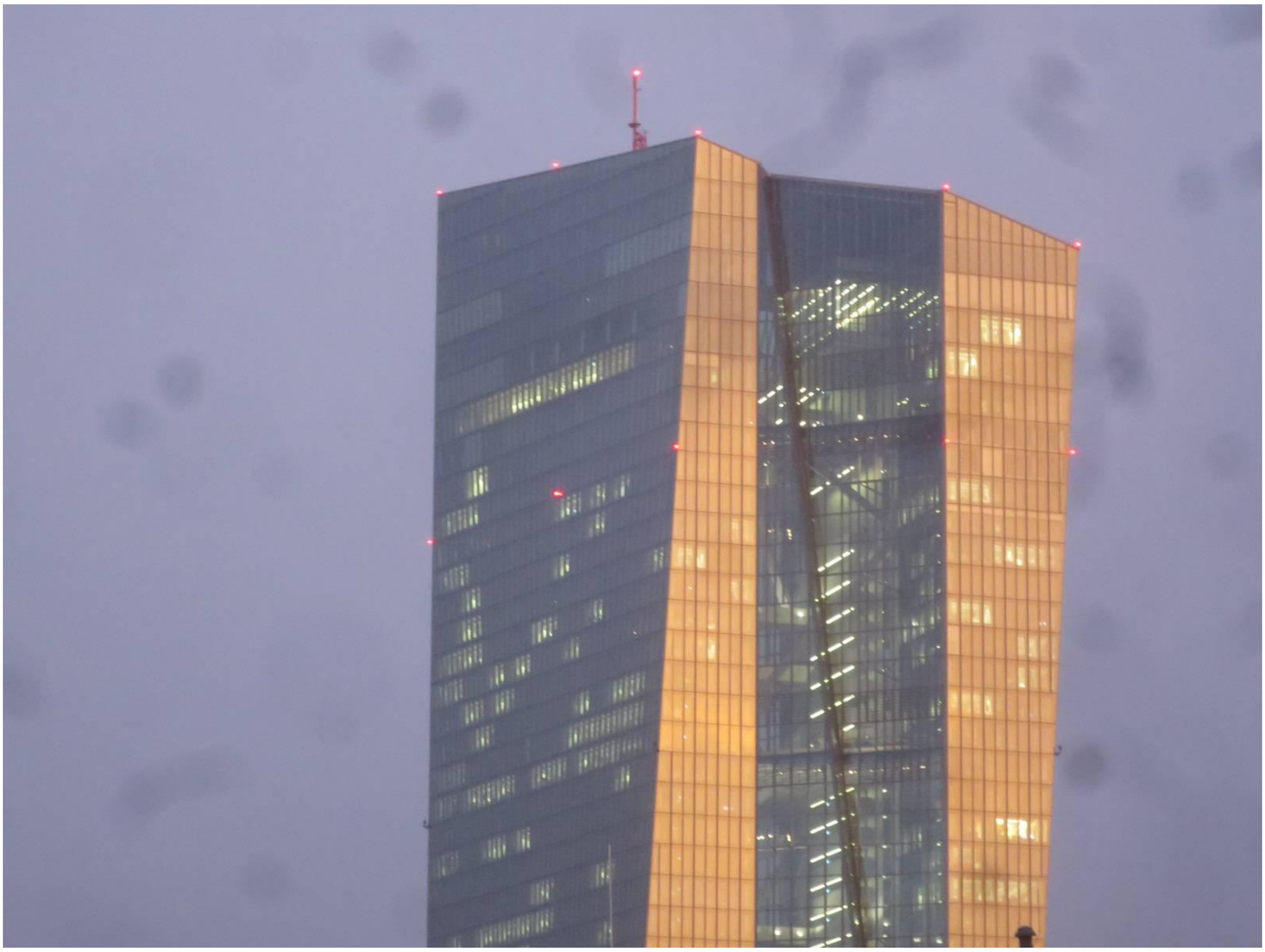

THE DOOR OF TEARS, THE LAUGHTER OF CAPITAL AND INFLATION.

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The war in the strait and the consequences for global trade

As National Geographic Magazine reminds us, Bab el-Mandeb, the Gate of Tears in Arabic, is a small geographical bottleneck in the Red Sea that has a huge impact on the global economy: It is a key point for controlling almost all shipping traffic between the Indian Ocean and the Mediterranean through the Suez Canal[1]. Almost 15% of the world's maritime trade passes through here, including 8% of the world's grain trade, 12% of oil traded by sea and 8% of all trade in liquefied natural gas.

For about two months, some ships passing through this route have been targeted by drones and missiles fired by Yemen's Houthi movement, which has been supported by Iran for years. Some ships, but not all. Only the merchant ships that sail off the Yemeni coast and have connections to Israel. The Houthi themselves portray the attacks as a reaction to the West's failure to condemn the massacre being carried out by Netanyahu's government in the Gaza Strip. Indeed, one could rightly argue (as Emiliano Brancaccio does in his article Lo stretto necessario, il Manifesto, January 23, 2024) that the Houthis' actions, which are well known in Tehran, benefit a project that runs counter to that of the West, which aims to counter the growing challenge by Chinese and Russian competitors to the economic dominance of the United States and its historical leadership in geopolitical relations, including through the erection of trade and financial barriers. Regardless of the actual motives, the armed clashes have led to an escalation of war tensions in the Middle East and the arrival of warships from various Western countries (particularly the United States and the United Kingdom, but Italian ships are also likely to play a role) to patrol the area, while many

international shipping companies (e.g. Maersk Line, Hapag-Lloyd, Hapag-Lloyd, etc.) have been deployed to the Middle East. Maersk Line, Hapag Lloyd and Mediterranean Shipping Company) decide to use again the longest and most expensive route to reach the Mediterranean as in the past: the one that requires a circumnavigation of Africa. It is difficult to predict how this new war scenario will develop in the future. In line with the approach already taken in Pannone 2023(a) and 2023(b), this contribution aims to draw attention not to the geopolitical objectives of the states or armed groups involved in the game of the parties, but to the material interests of the economic-financial groups that stand to gain the most from a controlled escalation of the conflict in the Middle East – of which the war with the Houthis is only the latest act – and which today have the power to shape the policies of governments and the destiny of peoples.

The main beneficiaries of the new war tensions

The increasing tendency of many ships to avoid the waters and conflict zone in the Red Sea and Eastern Mediterranean poses an immediate threat to trade, both in terms of higher freight rates and the delays that will impact global commodity supply chains. Digital freight forwarder Flexport puts the impact on transit time of choosing to bypass Africa at a minimum of 7 to 10 days compared to the traditional alternative of using the Suez Canal for trade between Europe and Asia. These critical problems are exacerbated by the ongoing problems in the Panama Canal (due to drought), through which 5% of world trade flows. All this is fueling fears of a new slowdown in the global economy and a renewed intensification of the inflation phenomenon (see below), whose reappearance after more than 30 years of moderation is attributed by many observers to the persistence of bottlenecks in the global value chain caused by the restrictions of the pandemic phase. However, these developments are not necessarily associated with disadvantages for everyone. For example, the lengthening of routes for ships

sailing around Africa can help to reduce chronic overcapacity in container shipping, a key component of international freight transportation[2]. Overcapacity has been a recurring issue over the past decade due to the slowdown in global economic growth, which was exacerbated in 2020 by the spread of Covid, exacerbating the mismatch between the growth in container fleet transportation potential and actual demand growth. It was not until 2021 that demand managed to outpace capacity growth, but this was an exception as the global economy recovered and restrictions eased due to the reduction in health risks[3]. With potential annual supply growth estimated to be between 5% and 6.35% by 2025, compared to demand growth of just 0.3% in 2023, the persistent overcapacity in the shipping industry has come to the fore again, and with it the prospects of lower than expected profits for operators. For these reasons, the shipping industry has undergone a frenetic process of vertical and horizontal integration over the last ten years, through intensive mergers and acquisitions between shipping companies. The number of shipping companies has increased from 30 at the beginning of the 1990s to 14 today, with the 10 largest shipping companies holding 84% of the market share. Against this backdrop, the disruption of Red Sea transits and the lengthening of routes for ships sailing around Africa have spurred "bets" by financial players on the possibility of significantly curbing the problem of overcapacity in maritime transport and averting the downward trend in freight rates, which is extremely risky for the sustainability of the sector as a whole[4]. As a result of these new expectations, the share prices of the Danish A.P. Moller-Maersk A/S and the German Hapag-Lloyd AG (which are among the leading international shipping companies) as well as the Israeli shipping company Zim Integrated Shipping Services soared as soon as the crisis in the Straits worsened. It is also no coincidence, of course, that BlackRock, famously one of the world's leading asset management firms alongside Vanguard and State Street and one of the largest US companies by revenue, acquired 100% of infrastructure fund Global Infrastructure Partners (GIP) in mid-January this year in a huge

transaction worth $12.5 billion. One overlooked aspect of the acquisition is that BlackRock, through GPI, has become a minority partner in Mediterranean Shipping Company, fully entering the shipping industry given the expected strong growth in the sector's shares.

There are also other companies that stand to benefit greatly from the increasing tensions in the Red Sea. As with any other conflict in the region, the major oil companies and OPEC stand to benefit to varying degrees at the expense of the major non-oil companies (and countries). As Bichler and Nitzan have shown, the profit differential in oil is closely related to the relative price of oil, which is measured as the ratio between the dollar price of crude oil and the US Consumer Price Index (CPI). The relative oil price in turn reacts very sensitively to the perception of real or imagined "risk" in the Middle East. This perception of risk tends to increase in preparation for and during armed conflicts; and as risks increase, they drive up the relative price of oil and thus the profit differential of oil companies. It is therefore not difficult to see a close convergence of these companies' interests with those of the weapons systems manufacturers (notably Lockheed Martin, Northrop Grumman Corporation, Raytheon (now RTX), Halliburton and Boeing), whose shares already gained significantly in value after the outbreak of the conflict in Gaza on October 7. Between October 7 and November 19 alone, the Israeli Ministry of Defense (IMOD) awarded contracts worth a total of 4 billion shekels (1.08 billion dollars) to companies in the defense industry. Speculators are thus betting on the increased demand for missiles, artillery and other military technologies fueled by the war, turning expectations of the near future into immediate financial gains[5]. We do not yet know how long this upward trend will last, but there is no doubt that the wars between Russia and Ukraine in 2022, between Hamas and Israel in 2023 and now the war tensions in the Red Sea have given a powerful boost to the prospects of both combinations of interests. The existence of many other areas of the world in which potentially

degenerative “high-intensity” conflicts (i.e. The existence of many other areas of the world where potentially degenerative ‘high intensity’ (i.e. including heavy weapons) conflicts are being fought in the context of an increasingly fragile geopolitical world order – such as the conflicts in Syria, South Sudan, the Central African Republic, northern Mozambique, North Kivu and Ituri in the Democratic Republic of Congo, Tigray in Ethiopia and Iraq, Nigeria, as well as Turkey’s war against the Kurds and others (see this link) – allows these clusters of interests, unlike the peoples of the world, to look to the future with some optimism.

Diverging capitalist interests and the benefits of proxy warfare

Then there is a group of interests that could be affected in contradictory ways by the increasing instability associated with the escalation of the Red Sea conflict and, more generally, by an ongoing climate of war. It is a complex of listed digital companies that derive varying levels of profit from the intellectual property of “intangible assets”. Whereas previously a significant proportion of their profits appeared to derive essentially from technological advances, profits now increasingly depend on the companies’ own ability to legally protect technologies and other forms of exclusion, making their own assets increasingly attractive in the financial markets as many other investors will also bet on their distinctiveness and seek to buy them, adding to their value. However, the general conditions required for the proliferation, enforcement and inflationary appreciation of intellectual property rights are opposite to those favorable to arms and oil-induced price appreciation. That is, they do not require instability, sheer force, but obvious national and international stability, openness to trade, confidence in innovation and a certain optimism for the future. On the other hand, the unpopularity of asymmetric warfare in today’s democracies and the recent global economic slowdown have led to inevitable cuts in defense budgets throughout the Western world. Although the war between Russia and Ukraine and the new conflict

between Israelis and Palestinians have opened up the possibility of easing budgetary constraints in favor of military spending in both the United States and Europe, the logic of these constraints would inevitably limit the scope for state intervention in favor of the digital transformation – which, along with the "green" transformation, is one of the main mantras of current capitalist ideology – of which public demand is an indispensable component.

In other words, the scenario that favors one interest group could weaken the other and vice versa[6]. And since both sets of interests (the oil and defense interest on the one hand and the digital interest on the other) have a significant impact on US domestic policy and international relations, the conflict or composition of the balance between them becomes crucial to the fate of the war in the Middle East and elsewhere[7]. This helps to explain the vacillation, uncertainty or inertia of Western diplomatic strategies, which appear indecisive to world public opinion even in the event of an open massacre such as that perpetrated by the Tel Aviv government in Gaza. In any case, there is a general possibility of war tensions developing, which could represent a space of compromise for the two power groups and the intertwining of their fates. This is a proxy war, i.e. a war of low to medium intensity but of long duration, instigated by a superpower without its direct involvement and waged by an intermediary nation and people[8]. Characteristic of this type of conflict is the increasing use of private military companies by states to operate in the most unstable scenarios, providing procurement of the most innovative weapons systems, police training, intelligence support, protection of strategic assets and vital facilities, and security for civilian leaders. The largest digital companies (the so-called GAFAMs: Google, Apple, Facebook, Amazon, Microsoft), which are at the forefront of the development of advanced technologies such as AI and cloud technology, dedicated to collecting and analyzing large amounts of data, including personal data, and capable of producing solutions and services to protect critical infrastructures from cyber

threats (or attacks on them), are therefore the main recipients of the current demand from the military-industrial complex and governments (see Coveri et al. 2023)[9]. For example, in a dynamic (i.e. constantly updated) report published in May 2023, the independent research center WHOprofits examines the various ways in which Microsoft, Cysco System, IBM and Dell Technologies support the Israeli occupation of the Palestinian territories by providing infrastructure, technology, knowledge and products for civilian and military facilities. In some cases, the companies are involved in carrying out projects that directly affect the Israeli army, while in other cases they provide software or equipment for the operation of a broader system aimed at strengthening the capacity of an already high-tech, data-driven Israeli occupation economy and enhancing its ability to dispossess, oppress and monitor Palestinians on both sides of the Green Line.

To summarize, this kind of decline in belligerent conflict, provided it does not get out of control and degenerate into an unforeseen escalation, can help to balance the divergent interests of the two power groupings, both in terms of industry and the attractiveness of their financial securities.

Inflation as a space of convergence between different industrial interests

Then there is another element that could represent a space of convergence between different capitalist interests and which, as mentioned above, could be revived by the disruption of transportation routes across the Red Sea: a new upsurge in inflation. The recent re-emergence of this phenomenon in 2022-2023, after a long period of significant inertia, is linked by many observers to the rise in prices on the markets for commodities – particularly energy (oil, gas, etc.) – and certain intermediate products, as well as staple foods such as wheat. These increases were (as mentioned above) mainly attributed to the recovery of the economy towards the end of the pandemic phase and the presence of bottlenecks

along the global value chains, exacerbated by the war in Ukraine (see e.g. Saracen). It is therefore to be feared that the conflict with the Houthis could trigger new price increases due to renewed difficulties in procuring goods, which, as has already happened in the recent past, would probably affect the goods that are relatively more strongly represented in the shopping baskets of the less affluent sections of the population (energy, food). However, the persistence of increases over time, i.e. non-transitory inflation, would presuppose the existence of structural constraints on the supply side. Already at the first flare-up of inflation, these constraints were identified by some economists (see e.g. Francesco Saraceno 2023, but also Riccardo Bellofiore and Andrea Coveri 2023, 2024) in the sectoral imbalances and bottlenecks that are typical of the transition phases of technology and consumer preferences and affect some markets more than others. Such phases – such as the transition to “green” and digital technologies currently taking place in many economies – require a transformation of the production structure that can never be immediate as it is constrained by the timetable for capacity building. This approach is in marked contrast to the prevailing view that sees inflation as a macroeconomic phenomenon determined by excess aggregate demand (relative to aggregate supply), enabled by excessive liquidity (too much money for too few goods) and ultimately neutral in its impact (having no lasting consequences for the real economy). In the author’s view, neither interpretation captures the essential element of the current inflation phenomenon, which – apart from the temporary effects of Covid restrictions – is essentially triggered by speculative behavior on the financial markets[10]. Indeed, the rise in the prices of energy, cereals and other so-called commodities is not due to the play of supply and demand on the spot markets, but depends essentially on the conclusion of long-term contracts – futures – which are financial contracts whereby buyers and sellers undertake to exchange a certain quantity of a given commodity at a predetermined price after a predetermined period of time[11]. Of course, spot prices[12] and long-term contract prices are not

independent of each other. However, prices are determined more by the dynamics of the "bet" than by those of the real market. And real prices follow like a shadow what has been bet or imagined. For example, the prices of fuel, energy and grain do not depend on real shortages, but also and above all on what happens on the world's major commodity exchanges, and are therefore subject to high volatility and speculative pressure[13]. Should an upward trend become established in this context, as was the case with gas and other commodity prices long before the outbreak of the war in Ukraine, companies operating on the real markets would be faced with a general increase in their costs. Given the predominantly oligopolistic structure of markets in most modern economies, larger companies would be able to pass on the increase in costs to prices and thus protect their profit margins, but also increase them, as has probably already happened since the second phase of the pandemic (see Nikiforos and Gothe 2023)[14]. It is clear that prices will not adjust immediately and simultaneously in all markets. But if there are input-output linkages between different production sectors and the initial cost push is large enough (as has been the case recently), the price increase would spread and accumulate throughout the economic system. Even companies with less market power would at least try to protect their profit margins by raising prices in constant proportion to the cost increase, according to the usual mark-up equation (see the well-known article by Weber and Wasner 2023). The pick-up in inflation that economies have experienced again after a long period of price stagnation is therefore obviously determined by costs and profits and not by wages. If anything, the latter have suffered a further decline in real terms, which has further altered the distribution of income to the detriment of workers[15]. From this point of view, inflation represents an area where the various interests of industry converge, even if they are quite different.

However, not all non-mainstream economists fully agree that "profit inflation" exists. Lavoie (2023), for example, argues that the share of profits in national

income could theoretically have increased (as it has in the last three years), which is at least partly due to the cyclical recovery of the economy after the pandemic phase and not necessarily to rising profit margins[16]. If the Red Sea crisis revives the upward trend in commodity markets (which it is likely to do) – at a time when the global economy is again showing clear signs of slowing down – it is very likely that the average increase in profit margins will be the real driver of any inflationary recovery.

War, inflation and the centralization of finance capital

A final point I would like to highlight is the link between rising war tensions, inflation and the financialization of the economy. It is precisely the strong uncertainty that is once again hovering over the economic and geopolitical environment that will continue to lead the largest companies to pour the profits already accumulated (and re-accumulated) by inflation into the purchase of non-reproducible assets (securities, shares, real estate, etc.) on the financial markets in order to help them increase in value and benefit from price differentials through a multitude of contracts with specific time characteristics. The phenomenon gained enormous importance after the 2007-2009 crisis, when the enormous availability of credit, encouraged by the central banks' "quantitative easing" policy to stimulate the economy, spilled over onto the stock markets and contributed to genuine financial inflation. The latter was able to benefit from the fact that a significant proportion of these transactions were buybacks (i.e. buying back own shares to support share prices, make new purchases attractive and generate capital gains) [17]. Over the years, a similar trend has emerged among companies with a strong dynamic and innovative vocation (such as Apple, Google, Facebook and Microsoft itself), some of which have become outright financial holdings. This is because technological innovation processes always require the allocation of a considerable amount of resources to activities (such as R&D

spending) with highly uncertain outcomes, an uncertainty that is exacerbated by strong international competition in the most profitable markets. All this has led to a real outflow of resources from productive investments to financial investments, especially for companies, which has slowed down the recovery of economic activity and contributed to the inflation of speculative bubbles[18]. In any case, profits from stock market transactions compensated (or even overcompensated) for the decline in profits from industrial activities, which were increasingly struggling in an increasingly stagnant economy. With the resurgence of war tensions and expectations of a rebound in inflation, share buybacks are likely to rise again this year after falling in 2023, thanks to the stratospheric gains made by the largest companies towards the end of the year (particularly technology and business services companies, which are taking the place of the consumer-facing companies that once dominated the global economy). The total amount of buybacks could rise to USD 1 trillion by 2024, according to Deutsche Bank estimates.

However, this financial option is not feasible for all companies, especially today. Whereas after the 2008 crisis even smaller companies were able to take advantage of this option because they could count on abundant cheap credit, today, as the monetary authorities themselves have raised interest rates with the stated aim of fighting the resurgence of inflation[19], only those that have accumulated substantial profits (i.e. the largest oligopolistic companies) can limit their need for external exposure to finance their stock market activities. For the others – e.g. small and medium-sized companies – borrowing to bet on stocks and shares would be a very risky and indeed impractical option[20]. Then there are other companies and sectors that, while financially healthier than the aforementioned, may find it difficult to pursue the financial option on a large scale: In addition to companies involved in oil and gas extraction or conventional power generation, there are, for example, telephone and telecommunications

companies; companies involved in the production of consumer durables, machinery or industrial components; established car brands that are considered strong in the industry but have limited appeal on the stock market due to challenges such as the transition to electric vehicles, competition from new players in the mobility sector and uncertainties related to global demand for vehicles.

It is therefore to be expected that this difference in opportunities between large oligopolistic companies operating in transnational markets and all others will further reinforce the tendency towards the centralization of financial wealth in a few hands that has already been observed in the global economy for some time (see Brancaccio et al. 2022) and will further widen the economic gap and power imbalance between different groups of companies. With this wealth, often parked in offshore tax havens waiting to be put to profitable use, large corporations can control the share packages of a variety of companies – sometimes competing in the same real markets – using financial tricks similar to Chinese boxes. We note, however, that the process of centralization described here is in fact parallel to the mechanism of extraction of surplus value on the basis of production described by Marx in Capital; a mechanism in which the large transnational financial oligarchies have only a limited interest, so much so that they make it the object of a veritable “strategic sabotage”[21] that diverts resources from productive investments and devours a multitude of economic activities for exclusively speculative purposes[22]. However, the same process must find a certain balance with the interests of productive capital and prevent the latter from becoming too weak. Indeed, no enterprise aiming at the accumulation of money capital could do without the continued accumulation of physical capital for the production of goods, at least to a certain extent. Therefore, “sabotage” cannot go beyond certain limits, because without the sphere of production, capitalism itself could not exist. If this balance cannot be maintained, it is possible that the resulting

instability takes the form of a clash between power groups, often even under the guise of circumscribed armed conflicts between nations and governments whose political, economic and military strategies are increasingly heterodirect and shaped by the objectives of these groups, see Pannone 2023(a). In this respect, war tensions and inflation, as we have seen in this paper, represent an articulated space of convergence/contrast for these groups.

To summarize, if one wants to understand the causes and consequences of what is happening in the Red Sea, one must "follow the money" and not the politics of states subject to their logic, as with any war. This realization will of course not help to end wars, but it might help to remind people (and intellectuals) why partisanship should never be supported and why any kind of material support for armed conflict should always be rejected.

Notes

[1] The name seems to refer to the dangers of navigating this narrow waterway with its cross currents, unpredictable winds, rocks and shoals. Many ships have sunk in the strait over the past centuries and millennia, while modern ships are also exposed to the dangers of sea mines from previous conflicts.

[2] Containers are used extensively for the efficient transportation of goods around the world. According to UNCTAD (United Nations Conference on Trade and Development), around 80-90% of world trade is transported by sea, and a large proportion of this volume is transported in containers.

[3] In 2021, maritime transport companies generated an estimated 150 billion US dollars in profits, an increase of 900 percent after a difficult decade.

[4] The announced termination of the cooperation between the shipping companies MSC (Mediterranean Shipping Company) and Maersk in 2025, which aims to preserve the decision-making autonomy of the two companies, has raised concerns among analysts that competition in the industry could increase and prices could fall further in order to steal customers away from the competitor. Given the importance of the two companies in the current market structure, this would have quickly undermined market participants' confidence in a stable and efficient supply chain for goods.

[5] In this context, it is also interesting to see who the major shareholders of the defense companies are. At Lockheed Martin, four large funds, Vanguard, Black Rock, State Street and Geode Capital Management, own around 35% of the capital, while at Northrop Grumman Corporation they own almost 40% and at Raytheon 30%. At Boeing they "stop" at 20 % and at Halliburton they exceed 32 %.

[6] The same is true for actors producing for domestic markets under non-monopolistic conditions and in a way that has nothing to do with military production. It is therefore obvious that not the entire capitalist economy can benefit in a relevant and uniform way from the increase in arms spending and the implementation of military expansion projects with hegemonic objectives.

[7] This influence is also known to be exerted through the so-called "revolving door" mechanism, a term used here to describe the transfer of officials and politicians from the public to the private sector. I discuss this mechanism in the US government in detail in footnote 7 in Pannone 2023(b).

[8] In 1964, political scientist Karl Deutsch defined proxy war as "an international conflict between two foreign powers fought on the soil of a third country,

masquerading as a conflict over an internal matter of that country and using some of that country's personnel, resources, and territory as a means to achieve predominantly foreign objectives and strategies." Although the concept has been known since the Cold War, it has recently resurfaced in a new form in a completely different geopolitical and economic context, both in the case of the conflict in Syria and the recent conflict in Ukraine.

[9] Moreover, some of the digital actors are increasingly functional to the surveillance and control of the population by governments, suppressing and censoring any critical expression of the prevailing narrative of the war conflicts. A recent report by media analysis firm Graphika, in collaboration with Stanford University, identified a strategy on Facebook (as well as Twitter and Instagram) aimed at influencing social network users in the Middle East and Asia in favor of commentary and information on American foreign policy and against Russia. This was uncovered by the Wahington Post and confirmed by the spokesperson for Meta (Facebook's parent company). All of this has been made possible by the introduction of a new proprietary algorithm, the News Feed – which utilizes developments in public research into machine learning – whose main purpose is to filter out of the thousands of possible updates those that could potentially be of most interest, delivering the right content to the right people at the right time. The founder of Facebook himself recently acknowledged some responsibility for this problem.

[10] We note that the prevailing view that attributes the growth of inflation to the existence of excess demand at the aggregate level is hardly credible, given that there is clear evidence of an inexorable downward trend in capacity utilization in virtually all major world economies since the late 1990s (see Pannone 2023a). Two recent papers by Gahn (2022) and Nikiforos (2021) provide important empirical evidence of this trend in relation to the United States. On the other

hand, the view that attributes the structural nature of inflation to the existence of sectoral imbalances, which makes theoretical sense in times of qualitative change such as the post-Covid and post-war period, implies that there must be excess demand in at least some sectors because the build-up of new production capacity is delayed, which would lead to supply constraints. However, it is precisely in the sectors where this situation is to be expected, e.g. in the agricultural and food industries, the electric car industry, the semiconductor industry and other new applications of green technologies (green fashion) and digital technologies, that the phenomenon of overcapacity and overproduction is more than evident, apart from temporary phases. This leads us to express strong doubts about the current relevance of this approach.

[11] Futures belong to the so-called “derivative” financial instruments and were created to provide protection against uncertainty and market risks. In 2000, however, the then US President Bill Clinton and the then Chairman of the Federal Reserve, Alan Greenspan, liberalized the derivatives market with the Commodity Futures Modernization Act. With this liberalization, any trader, without even the slightest interest in owning a particular commodity as such, could buy and sell futures of the same to try to make money from the price fluctuations of the futures themselves. Futures thus became “naked” derivatives (naked futures), i.e. pure speculation. With the liberalization of naked derivatives, trading has become a bet on anything that can be bet on. In addition to these more traditional contracts, there are newer types of financial derivatives: Credit Default Swaps, EFT indices, carbon credits.

[12] The spot market is a market where goods can be bought with immediate payment and delivery. The term spot market also refers to the price paid at the time a commodity is bought or sold; this price is of course constantly changing, especially when trading volumes are high. The spot market differs from the futures

market in that in the latter case the asset is only “optioned”, i.e. the right is granted to buy or sell an asset at a certain price within a certain period of time.

[13] Prices for agricultural products, for example, are set on the Chicago, Paris, London and Mumbai exchanges, which are not “public” institutions but private companies whose main shareholders are the largest global financial funds. In the case of the Chicago Mercantile Exchange, the largest blocks are in the hands of Vanguard, BlackRock, JP. Morgan, State Street Corporation and Capital International Investors. The same applies to the most important market for wholesale gas exchanges, the Title Transfer Facility (TTF), a virtual platform (and index) of the Amsterdam Stock Exchange, which is operated by the European Energy Exchange (EEX) – a subsidiary of the German multinational Deutsche Börse – and the Intercontinental Exchange (ICE), an American company that also controls the New York Stock Exchange. This explains, for example, why food prices rose during the coronavirus crisis when food was almost in short supply. Or the fact that gas prices started to rise long before the Russians invaded Ukraine.

[14] There is already some preliminary empirical evidence that there may have been an average increase in profit margins over the last three years. See e.g. Konczal and Lusiani 2022, Glover et al. 2023, but also some case studies in Weber and Wasner 2023. In June 2023, Nikiforos and Gothe announced the forthcoming publication of their paper estimating the average mark-up of companies using the Compustat database. Preliminary results of their work show that the average mark-up continued to increase in 2022, albeit to a lesser extent than in 2021. Part of the increase is likely due to the increase in market share of companies with higher profit margins. However, the authors themselves acknowledge that further empirical work is needed to support these conclusions.

[15] While the increase in nominal wages recorded for 2021 (5%) is higher than in previous years, due to government transfers to workers during the pandemic, the increase is still below the annual inflation rate (6.8%), which means that real wages have fallen. However, the impact of the fall in real wages on aggregate demand and output/employment should not be underestimated as this could cool the intensity of inflationary pressures by weakening the economy.

[16] Lavoie 2023 argues that due to the existence of (fixed) overhead costs, when the economy recovers – and capacity utilization increases – total unit costs tend to fall. If companies set the price as a margin on variable unit costs, the mark-up on total unit costs will increase, even if the margin remains constant. As a result, the profit share of wages will also tend to increase.

[17] According to calculations by Artemis Asset Management, US companies alone bought back a total of USD 3.8 trillion of their own shares on the stock market (buybacks) between 2009 and 2017. In the two record years of 2015 and 2016, they spent more on buying back their own shares and paying out dividends than they made in profits.

[18] The statistical evidence that non-financial companies use a lower proportion of their profits for tangible investments while increasing shareholder returns through share purchases and buybacks is not limited to the US. An extensive body of OECD data shows that the same trends can now be observed in many developed economies. See Gruber and Kamin 2017.

[19] As is well known, this behavior of central banks finds a theoretical justification in the neoclassical/monetarist framework. According to this, raising interest rates would slow down productive investment by cooling the pressure on production and the labor market and defusing the inflation process. The

interpretation of inflation presented in these pages is contrary to the neoclassical one and assumes that raising interest rates, as practiced by monetary authorities so far, only serves to further weaken aggregate demand, output and employment and to reinforce the tendency towards financialization of the economy and radicalization of income distribution.

[20] When a company borrows from banks to invest in the stock market, it uses a combination of equity and loans to increase potential returns. This practice is known as “leveraged trading” or “margin trading”. Companies can obtain financing from banks through loans or by issuing bonds. The use of leverage allows them to increase their positions in the stock market in the hope that the returns generated will exceed the cost of the debt. However, it should be noted that leverage also increases risk, as losses can be amplified just as much as gains. This strategy can lead to substantial gains, but also carries significant risks. Market fluctuations can have a significant impact on a company’s debt and jeopardize its financial stability. If the markets do not behave as expected, it can be difficult for the company to repay its debts. It is clear that rising interest rates can have a significant impact on leveraged debt. When interest rates rise, the costs associated with loan repayment increase. This means that companies that have leveraged debt may be faced with higher interest payments that may exceed the benefit of the risk.

[21] We derive the term “strategic sabotage” from Bichler and Nitzan (2023).

[22] For example, there are about 900 million acres of farmland in the United States, of which about 30 million are in the hands of a small circle of large financiers who certainly did not buy it for agricultural interests.

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